Natural Gas Slides Nearly 15% In Two-Week Rout Drop May Help Consumers, But Many Expect Winter To Bring Higher Prices (Wall Street Journal)

By RUSSELL GOLD and ANN DAVIS

Natural-gas prices have fallen nearly 15% in the past two weeks, a significant move that could benefit consumers and the economy while walloping commodity speculators.

But few in the market expect the lower prices to remain through winter.

On Friday, natural-gas futures on the New York Mercantile Exchange hit their lowest point in two years, $4.65 per million British thermal units, before rebounding and closing nine cents higher at $4.98 -- the first day they gained in seven trading sessions.

Natural-gas futures are off 68% from the Nymex-record high of $15.378, reached on Dec. 13, and off 56% for the year to date.

As recently as July 31, gas closed at $8.21 per million BTUs. The swift fall in the price of natural gas, a cleaner-burning fuel used by industry, power generators and households, has been a result of a combination of warm winter-weather predictions, the absence of hurricanes and healthy winter storage levels.

If this trend holds into the winter, it would be good news for consumers and for the broader economy. About 57% of U.S. households use natural gas for home heating. Lower natural-gas prices could mean smaller utility bills "which could allow for consumer consumption to potentially be stronger" than current expectations, says Jason Schenker, an economist with Wachovia Corp.

The drop in natural-gas futures could already be hurting speculators. Extreme volatility in gas prices more than a month ago prompted disastrous losses for a prominent energy-trading hedge fund, MotherRock LP, forcing it to close.

Most financial speculators in natural gas don't simply take outright bets on the directions of current-month prices. They are much more likely to bet on the "spreads," or differences, between contracts for delivery in different months and how those spreads expand or contract over time. As of Sept. 5, Commodity Futures Trading Commission data show that 46% of all open positions in natural-gas futures and options were so-called spread trades.

Recently, a popular trade for many hedge funds has been betting that the summer-month contracts would fall in price, and that the winter-month contracts would rise. Some large traders have billions of dollars invested in winter natural-gas contracts for delivery in 2007 or later, which have skidded in price even more than near-term contracts as forecasts grow for a warm winter.